

Message Text

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ORIGIN EB-08

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 NEA-11 IO-13
ISO-00 SIG-03 SP-02 ICA-11 AID-05 NSC-05 TRSE-00
SS-15 STR-07 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-10 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01
AGRE-00 OIC-02 /150 R

DRAFTED BY EB/IFD/ODF:EWLOLLIS:DA
APPROVED BY EB/IFD/ODF:AFWATSON
EB:RHORMATS (SUBS.)
IO/IEP:RPOOLE (SUBS.)
AID/IIA/IA:KKAUFFMAN (SUBS.)
S/P:JGARTEN (SUBS.)
TREASURY:JKOOKER (SUBS.)
NSC:GERB (SUBS.)
EUR/RPE:PMCLEAN (SUBS.)
EB/PAS:DLEIPZIGER (SUBS)
USUN:RRIEMER (SUBS)

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BRUSSELS ALSO FOR USEEC, PARIS ALSO FOR USOECD

E.O. 11652: N/A

TAGS: EGEN, UN, ECOSOC

SUBJECT: UN COMMITTEE OF THE WHOLE (OVERVIEW COMMITTEE)

REF: (A) STATE 96508, (B) BRUSSELS 7855 NOTAL,
(C) USUN 1474 NOTAL

SUMMARY

1. THE UN COMMITTEE OF THE WHOLE WHICH WILL MONITOR NORTH/SOUTH ISSUES HOLDS ITS FIRST SUBSTANTIVE MEETING MAY 3-12. IT IS STILL UNCERTAIN HOW THE FOUR PRINCIPAL AGENDA ITEMS WILL BE DISCUSSED, WHAT SPECIFIC ISSUES WILL BE RAISED AND HOW THE COMMITTEE WILL REACH AND EXPRESS ITS CONCLUSIONS. THIS CABLE PROVIDES SOME OF THE GENERAL CONCLUSIONS THE U.S. WOULD LIKE THE COMMITTEE TO REACH. NO ATTEMPT IS MADE, HOWEVER, TO DISCUSS THE MANY INDIVIDUAL ISSUES EXPECTED TO BE RAISED UNDER AGENDA ITEMS 2 (TRANSFER OF RESOURCES), 3 (OVERSEEING AND MONITORING THE IMPLEMENTATION OF NIEO DECISIONS AND AGREEMENTS), AND 4 (PROVIDING IMPETUS AND EXPEDITING AGREEMENT ON OUTSTANDING ISSUES). END SUMMARY

2. THE USG HAS PREPARED A PAPER FOR CIRCULATION TO OTHER

GOVERNMENTS ON AGENDA ITEM 1 (REVIEW AND ASSESSMENT OF THE WORLD ECONOMY AND THE DEVELOPING COUNTRIES IN PARTICULAR), BUT THE PAPER HAS NOT YET BEEN SUBMITTED TO THE UN SECRETARIAT AND WILL THEREFORE NOT REACH CAPITALS PRIOR TO THE MEETING. THE U.S. PAPER CONTAINS INTER ALIA THE FOLLOWING GENERAL PRINCIPLES WHICH WE WILL SEEK TO HAVE ACCEPTED

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AT THE MAY MEETING:

-- LDC GROWTH IS BOTH VITAL TO GROWTH IN THE GLOBAL ECONOMY AND DEPENDENT ON ITS GENERAL HEALTH;

-- THERE IS A MUTUALITY OF INTERESTS AND BENEFITS IN A HEALTHY GLOBAL ECONOMY, I.E., IN DC GROWTH AND IN LDC DEVELOPMENT AND GROWTH;

-- THE GLOBAL ECONOMY HAS STILL NOT ADJUSTED TO PAST SHARP INCREASES IN ENERGY PRICES AND THE MOST SEVERE RECESSION SINCE THE GREAT DEPRESSION;

-- A RESUMPTION OF GROWTH AT HIGH LEVELS IN LDCS IS HELPFUL TO GLOBAL ECONOMIC RECOVERY; SUCH GROWTH CAN BE SUSTAINED ONLY IF THE WORLD ECONOMY AS A WHOLE IS HEALTHY;

-- GROWTH IN THE INDUSTRIALIZED NATIONS PROVIDES EXPANDING EXPORT MARKETS FOR DEVELOPING COUNTRIES AND FACILITATES ADJUSTMENT AND STRUCTURAL CHANGE NECESSARY TO ACCOMMODATE GROWING IMPORTS OF MANUFACTURES FROM LDCS;

-- THE CURRENT SYSTEM OF FLOATING EXCHANGE RATES AMONG MAJOR CURRENCIES IS BETTER ABLE TO ACCOMMODATE THE CHANGING ECONOMIC CIRCUMSTANCES AND LARGE SCALE CAPITAL FLOWS THAN ITS PREDECESSOR--THE FIXED RATE SYSTEM;

-- IT IS IMPORTANT FOR THE WORLD ECONOMY TO REDUCE INFLATION. THE PRIORITY OBJECTIVE OF THE DEVELOPED NATIONS IS TO REDUCE INFLATION WITHOUT PRESSING TOO HARD ON THE BRAKES AND THUS CAUSING SOME ADVERSE ECONOMIC DIFFICULTIES FOR OUR OWN PEOPLE AND FOR THE LDCS;

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-- COOPERATION IN SHORT-TERM MANAGEMENT OF THE WORLD ECONOMY SERVES TO STIMULATE GROWTH, SMOOTH ADJUSTMENTS,

REDUCE UNCERTAINTY AND PROMOTE ECONOMIC EFFICIENCY;

-- ALL NATIONS SHOULD COOPERATE TO SEEK LONG-TERM REAL GROWTH IN WHICH INCREASING BENEFITS ACCRUE TO LDCS AND TO THE POOR IN LDCS;

-- LDCS ARE NOT HOMOGENEOUS AND THEIR NEEDS DIFFER: SOME LDCS HAVE ADOPTED POLICIES WHICH HAVE TAKEN ADVANTAGE OF THE PRESENT INTERNATIONAL TRADING SYSTEM AND HAVE ATTAINED HIGH GROWTH RATES; OTHERS HAVE NOT FARED AS WELL AND HAVE ACHIEVED UNSATISFACTORILY LOW GROWTH RATES; IN VIRTUALLY ALL LDCS, POVERTY REMAINS A MAJOR PROBLEM, ALBE- IT TO DIFFERENT DEGREES, AND REQUIRES GROWTH TO FOCUS ULTIMATELY ON MEETING THE BASIC NEEDS OF LARGE PORTIONS OF THE POPULATION.

3. DURING THE DISCUSSION OF AGENDA ITEM 1 AND THROUGHOUT THE MEETING, THE U.S. INTENDS TO RETURN TO SEVERAL BASIC THEMES SUCH AS:

-- AGREEMENT THAT A COOPERATIVE APPROACH TO LDC DEVELOP- MENT PROBLEMS IS MORE CONDUCIVE TO PROGRESS THAN IS CON- FRONTATION.

-- RESOURCES AVAILABLE FOR DEVELOPMENT ARE LIMITED AND MUST BE USED EFFICIENTLY AND FOR MOST APPROPRIATE PURPOSES.

-- POLITICAL WILL IN DEVELOPED COUNTRIES TO PROVIDE SUS- TAINED SUPPORT FOR DEVELOPMENT IS DIRECTLY RELATED TO THEIR PERCEPTION THAT SUCH DEVELOPMENT CONTRIBUTES TO THE GROWTH OF THE WORLD ECONOMY AND TO THE WELFARE OF THE PEOPLE OF DEVELOPING COUNTRIES.

-- GREATER EQUITY WITHIN COUNTRIES AS WELL AS AMONG THEM
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IS A VITAL GOAL OF DEVELOPMENT, AS ARE BHN OBJECTIVES.

-- ALL COUNTRIES HAVE AN OBLIGATION TO HELP THE VERY POOREST PEOPLES.

-- INVESTMENT IN HUMAN CAPITAL CREATES DOMESTIC RESOURCES FOR DEVELOPMENT; INTER ALIA, THIS IMPROVES THE RATE OF RETURN ON INVESTMENT.

-- THERE IS A NEED FOR AN APPROPRIATE BALANCE BETWEEN PROJECTS WHICH BENEFIT POOR PEOPLE DIRECTLY AND THOSE WHICH BENEFIT THEM INDIRECTLY. (BALANCE IS NEEDED TO ALLAY THE STRONG RESERVATIONS OF A NUMBER OF LDCS, PARTICULARLY SOME OF THE MORE ADVANCED, WHO INTERPRET BHN AS ANTI- GROWTH AND AN INTERFERENCE.)

-- A LIBERALIZED, OPEN TRADING SYSTEM TO WHICH BOTH DCS AND LDCS CONTRIBUTE FOSTERS INCREASED EXPORTS BY BOTH, STRENGTHENS COMPETITION TO THE BENEFIT OF PRODUCERS AND CONSUMERS AND PROVIDES GROWTH OPPORTUNITIES FOR LDC EXPORTS TO STIMULATE LDC DEVELOPMENT. ALTHOUGH WE ACKNOWLEDGE

THE NEED FOR SOME PREFERENTIAL TREATMENT OF DEVELOPING COUNTRIES (E.G., GSP), THEY MUST TAKE ON FULL OBLIGATIONS IN DUE COURSE, AND THE TRADING SYSTEM MUST THEREFORE PROVIDE FOR "GRADUATION." ALL COUNTRIES HAVE AN OBLIGATION TO ADJUST TO FAIR COMPETITION.

-- THE WAY IN WHICH COUNTRIES DEAL WITH SECTORAL PROBLEMS-- ENERGY, RAW MATERIALS OR FOOD--HAS IMPLICATIONS FOR THE OVERALL HEALTH OF THE WORLD ECONOMY AND FOR THE RATE OF INFLATION.

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4. WE ANTICIPATE THAT UNDER AGENDA ITEM 2 ("TRANSFER OF RESOURCES IN REAL TERMS TO THE DEVELOPING COUNTRIES") THE GROUP OF 77 WILL RAISE A VARIETY OF SPECIFIC ISSUES-- VOLUME OF OFFICIAL DEVELOPMENT ASSISTANCE, MONETARY REFORM, PROTECTION OF LDC PURCHASING POWER, STRENGTHENING LDC INDUSTRIAL CAPACITY, AND SO FORTH. WE ARE WILLING TO DISCUSS ANY ISSUE SO LONG AS DISCUSSION IS NOT RESTRICTED TO THINGS THE DEVELOPED COUNTRIES SHOULD DO FOR THE LDCS BUT INCLUDES DISCUSSION OF THE MUTUAL RESPONSIBILITIES OF DEVELOPED AND DEVELOPING COUNTRIES. DURING THE GENERAL DISCUSSION OF ITEM 2, WE SHALL TRY TO ESTABLISH THE FOLLOWING GENERAL POINTS:

A. PURPOSE OF RESOURCE TRANSFERS

INTERNATIONAL RESOURCE TRANSFERS ARE AN ESSENTIAL SUPPLEMENT TO DOMESTIC RESOURCES OF LDCS, WHICH PROVIDE THE MAJOR SOURCE FOR FINANCING DEVELOPMENT. WHEN WELL DIRECTED AND EFFICIENTLY EMPLOYED, RESOURCE TRANSFERS CAN CONTRIBUTE SIGNIFICANTLY TO ACCELERATING SELF-SUSTAINING GROWTH WITH SOCIAL JUSTICE IN THE DEVELOPING NATIONS AND ALSO TO THE CONTINUED STABLE GROWTH OF THE GLOBAL ECONOMY. LDCS HAVE AN OBLIGATION TO MAKE MAXIMUM EFFORTS ON THEIR OWN BEHALF TO SAVE AND INVEST THEIR OWN RESOURCES TO PROMOTE GROWTH WITH SOCIAL JUSTICE, TO MAKE EFFECTIVE USE OF RESOURCE TRANSFERS FROM DCS AND TO KEEP GLOBAL DEVELOPMENT AND TRADE OBJECTIVES IN VIEW. DCS RECOGNIZE THAT RESOURCE TRANSFERS TO LDCS, INCLUDING ODA, ARE IN THE DCS' OWN INTEREST AND AGREE TO STRIVE TO PROVIDE INCREASING FLOWS OF RESOURCES TO LDCS ACCORDING TO THEIR NEEDS.

B. SOURCES AND USES OF RESOURCES TRANSFERS

THE COMMITTEE SHOULD RECOGNIZE THAT THE VOLUME OF PRIVATE RESOURCE TRANSFERS IS GREATER THAN, AND PROBABLY COULD BE EXPANDED MORE THAN, OFFICIAL FLOWS. OFFICIAL TRANSFERS LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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ARE CRITICAL TO DEVELOPMENT, HOWEVER, ESPECIALLY FOR CERTAIN LDCS. COMPLEMENTARY ROLES FOR DIFFERENT FORMS OF

RESOURCE TRANSFERS, DIFFERENT MIX IN DIFFERENT LDCS DEPENDING ON ECONOMIC SYSTEM AND STAGE OF DEVELOPMENT. MIDDLE INCOME AND CAPITAL SURPLUS LDCS (ESPECIALLY OPEC MEMBERS) WITH RELATIVELY HIGH GROWTH RATES WILL OBTAIN RESOURCE TRANSFERS PRIMARILY FROM PRIVATE SOURCES. CONCESSIONAL OFFICIAL TRANSFERS SHOULD BE RESERVED FOR LOW INCOME AND SLOW GROWING LDCS. IN GENERAL, RESOURCE TRANSFERS SHOULD BE DIRECT (LOANS, GRANTS, EQUITY INVESTMENT); INDIRECT RESOURCE TRANSFERS (E.G., PRICE FIXING, PREFERENTIAL TREATMENT FOR LDCS) RISK INTRODUCTION OF ECONOMIC DISTORTIONS WHICH REDUCE PRODUCTION OR RESTRICT TRADE.

C. PRIVATE TRANSFERS

TRANSFERS FROM PRIVATE SOURCES ARE VITAL TO THE GROWTH OF LDCS AND TO THEIR ABILITY TO INCREASE PURCHASES FROM OTHER DEVELOPING AND DEVELOPED COUNTRIES. PRIVATE TRANSFERS RESPOND TO MARKET FORCES; THEREFORE CAN DRY UP BUT ALSO CAN BE GREATLY EXPANDED UNDER SUITABLE CONDITIONS. DCS AND SURPLUS OPEC MEMBERS HAVE A RESPONSIBILITY TO PERMIT AND ENCOURAGE PRIVATE CAPITAL OUTFLOWS, IMPROVE LDCS' ACCESS TO CAPITAL MARKETS (SO THAT

PRIVATE CAPITAL CAN BE INCREASINGLY OBTAINED ON TERMS APPROPRIATE FOR LONG TERM DEVELOPMENT PROJECTS), AND RECOGNIZE RIGHT OF SOVEREIGN LDCS TO REGULATE AND EXPROPRIATE FOREIGN OWNED INVESTMENTS SUBJECT TO INTERNATIONAL LAW. LDCS HAVE A RESPONSIBILITY TO MAINTAIN CONSISTENT INVESTMENT POLICIES; ESTABLISH OWN LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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CREDITWORTHINESS, PAY PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION FOR EXPROPRIATION. PRIVATE TRANSFERS ARE IN INTEREST OF ALL COUNTRIES AND CAN BE STIMULATED BY DC POLICIES (E.G., ODA, GUARANTEES AND INSURANCE), LDC POLICIES (INVESTMENT CLIMATE AND EFFECTIVE DEBT MANAGEMENT) AND INTERNATIONAL EFFORTS (E.G., CO-FINANCING BY

IFIS, INVESTMENT CREDIT GUARANTEE FACILITY).

D. OFFICIAL TRANSFERS

THE COMMITTEE SHOULD RECOGNIZE THAT OFFICIAL TRANSFERS CAN BE USED IN THE SHORT RUN FOR B/P ADJUSTMENT PURPOSES, BUT THEIR ONLY FUNDAMENTAL PURPOSE IS FOR DEVELOPMENT. THEY ARE NECESSARY TO GIVE LDC GOVERNMENTS FLEXIBILITY, ABILITY TO FINANCE PROJECTS IN SECTORS WHERE PRIVATE RESOURCES WOULD NOT NORMALLY FLOW (E.G., EDUCATION, TRAINING, PUBLIC HEALTH, BASIC INFRASTRUCTURE, RURAL DEVELOPMENT) AND TO STIMULATE MUCH LARGER FLOWS OF PRIVATE CAPITAL FROM DOMESTIC AND FOREIGN SOURCES.

CONCESSIONAL OFFICIAL TRANSFERS (INCLUDING DONOR GOVERNMENT'S CONTRIBUTIONS TO IFIS) ARE "HIGH COST" TRANSFERS, WHICH ONLY COMPLEMENT DOMESTIC RESOURCES AND PRIVATE TRANSFERS FROM ABROAD. THEY SHOULD BE CAREFULLY USED FOR THE HIGHEST PRIORITIES: FOR LLDCS AND OTHER LOW-INCOME LDCS, FOR INVESTMENT IN SECTORS MENTIONED ABOVE, FOR HUMAN CAPITAL INVESTMENT. COMMITTEE MEMBERS SHOULD RECOGNIZE THE IMPORTANCE OF INCREASED CONCESSIONAL BILATERAL AND MULTILATERAL DEVELOPMENT ASSISTANCE FOR THE POOREST COUNTRIES.

THERE IS A NEED FOR BALANCE BETWEEN PROJECTS WHICH BENEFIT POOR PEOPLE DIRECTLY AND THOSE WHICH DO SO ONLY INDIRECTLY. WHILE INDIVIDUAL DONOR NATIONS MAY FOCUS ON PARTICULAR GROUPS AND TYPES OF PROJECTS, AND INDIVIDUAL RECIPIENTS DESIRE ASSISTANCE SUITABLE TO THEIR PARTICULAR DEVELOPMENT LIMITED OFFICIAL USE
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NEEDS, PROJECTS WHICH DIRECTLY IMPACT ON BHN AND PROJECTS WHICH DO SO ONLY INDIRECTLY ARE BOTH IMPORTANT TO ACHIEVE SUSTAINABLE AND EQUITABLE GROWTH OF INCOME AND PRODUCTION IN DEVELOPING COUNTRIES.

GOVERNMENTS SHOULD RECOGNIZE THAT OFFICIAL TRANSFERS ARE A COOPERATIVE ENDEAVOR: LDCS THEREFORE ARE RESPONSIBLE TO MAKE MOST EFFECTIVE USE OF THEM SO THAT PEOPLE OF DONOR COUNTRIES WILL CONTINUE TO FEEL THAT IT IS IN THEIR OWN INTEREST TO INCREASE OFFICIAL FLOWS. DONOR NATIONS HAVE THE RIGHT TO EXPECT RECIPIENTS TO USE AID EFFECTIVELY TO PROMOTE DEVELOPMENT WITH THE OBJECTIVE OF GREATER EQUITY AND THAT OUTSIDE AID WILL BE SUPPORTED BY SOUND DOMESTIC POLICIES TOWARD THE SAME END.

AUTOMATICITY OF OFFICIAL FLOWS WOULD VIOLATE SOVEREIGNTY OF DONOR COUNTRIES. SINCE THEY ARE COOPERATIVE, THEY SHOULD REMAIN IN MUTUAL INTEREST OF ALL COUNTRIES. ALL GOVERNMENTS CAN AGREE TO STRIVE TO INCREASE FLOWS OF OFFI-

CIAL RESOURCES (DAC, COMMUNIST, OPEC, RICHER LDCS' FLOWS TO POORER LDCS).

(1) OFFICIAL TRANSFERS BY IFIS

THE COMMITTEE SHOULD RECOGNIZE THAT THE IFIS ARE FUNDAMENTAL TO THE HEALTH OF THE WORLD ECONOMY, CONTRIBUTE TO THE DEVELOPMENT OF THE LDCS, GLOBAL GROWTH, EXPANSION OF WORLD TRADE AND MOBILIZATION OF PRIVATE CAPITAL FOR DEVELOPMENT. IFIS PLAY INTERMEDIATE ROLE BETWEEN DONOR AND LDC GOVERNMENTS AND BETWEEN SOURCES OF PRIVATE AND OFFICIAL CAPITAL. NEW TECHNIQUES SHOULD BE USED, E.G., CO-FINANCING. IFIS ARE MAJOR SOURCE OF LONG TERM CAPITAL, ESPECIALLY FOR MIDDLE INCOME LDCS. THEIR ROLE DECREASES AS LDCS BECOME LIMITED OFFICIAL USE
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ABLE TO GO DIRECTLY TO PRIVATE CAPITAL MARKETS. IFIS ARE ALSO IMPORTANT AS MANAGERS OF CONCESSIONAL WINDOWS FOR LOW INCOME LDCS. GOVERNMENTS SHOULD SUPPORT THEIR CAPITAL INCREASES AND REPLENISHMENTS.

(2) OFFICIAL TRANSFERS BY GOVERNMENTS (BILATERAL ASSISTANCE)

DCS CAN RESTATE THEIR PLEDGES--AND DOCUMENT PROGRESS TO DATE--TO MEET CIEC COMMITMENTS TO INCREASE ODA VOLUME, TO TRANSFER ADDITIONAL RESOURCES TO LOW INCOME LDCS (SPECIAL ACTION PROGRAM) AND TO IMPROVE ODA TERMS (WORK IN DAC), INCLUDING TDB AGREEMENT ON RTA OR EQUIVALENT MEASURES. THE COMMITTEE SHOULD RECOGNIZE THAT THE BILATERAL PROGRAMS OF THE U.S. AND SOME OTHER DONORS FOCUS ON BHN BECAUSE THE PERSISTENT PROBLEMS OF THE POOREST PEOPLE DO NOT RECEIVE SUFFICIENT RESOURCES FROM OTHER SOURCES AND BECAUSE INVESTMENT IN HUMAN NEEDS CAN MARKEDLY INCREASE THE LDCS' CAPACITY FOR GROWTH AND DEVELOPMENT.

E. TRADE

THE COMMITTEE SHOULD RECOGNIZE THAT WORLD TRADE IS

BASICALLY THE MOST IMPORTANT MECHANISM FOR EARNING FOREIGN EXCHANGE, EVEN THOUGH IT IS NOT THE MAIN FOCUS OF AGENDA ITEM 2. "PROBLEM" OF RESOURCE TRANSFERS IS MUCH EASIER TO "SOLVE" WHEN LDCS ENGAGE IN HEALTHY COMMERCIAL EXCHANGES WITH REST OF WORLD, INCLUDING THE LARGEST MARKETS AND SOURCES OF GOODS AND TECHNOLOGY (THE DCS). NATIONAL ECONOMIES ARE THEREFORE LINKED, AND DC AND LDC TRADE POLICIES DIRECTLY AFFECT EACH OTHERS' ECONOMIES. COMMITTEE CAN GIVE MUTUAL IMPETUS FOR LIBERALIZATION OF WORLD TRADE, INCLUDING MTNS. THE COMMITTEE CAN RECOGNIZE THAT EFFICIENCY OF WORLD TRADE, IN CONTEXT OF MEASURES SUCH AS PRICE STABILIZATION WHICH SHOULD BE CONSIDERED

UNDER OTHER AGENDA ITEMS, IS IN EVERYONE'S INTEREST AND
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THAT INDIRECT TRANSFER MECHANISMS SUCH AS GSP SHOULD BE
VERY CAREFULLY CONCEIVED LEST THEY INTERFERE WITH THE
FREE EXCHANGE OF GOODS AND SERVICES

5. U.S. PAPER REFERRED TO IN PARA 2 ABOVE WILL BE SHARED
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IN THIS TELEGRAM IS FOR YOUR INFORMATION ONLY. YOU MAY,
OF COURSE, DRAW ON THIS MATERIAL IN CONVERSATIONS WITH
HOST GOVERNMENT OFFICIALS CURRENTLY OR IN FUTURE.
ALTHOUGH PREPARED TO HELP GUIDE U.S. DELEGATION DURING THE
MAY COMMITTEE MEETING, IT CONSTITUTES GENERAL U.S. VIEW
OF DC/LDC RELATIONS AND MAY BE OF GENERAL USE TO POSTS. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 sep 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COMMITTEE MEETINGS, INTERNATIONAL ORGANIZATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 05 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE114644
Document Source: ADS
Document Unique ID: 00
Drafter: EB/IFD/ODF:EWLOLLIS:DA
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Expiration:
Film Number: D780191-1017
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t197805112/baaaeyot.tel
Line Count: 455
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Message ID: 95773895-c288-dd11-92da-001cc4696bcc
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 9
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: (A) STATE 96508, (B) BRUSSELS 7855 NOTAL, (C) USUN 1474 NOTAL
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2539568
Secure: OPEN
Status: NATIVE
Subject: UN COMMITTEE OF THE WHOLE (OVERVIEW COMMITTEE)
TAGS: EGEN, PORG, UN, ECOSOC
To: BRUSSELS LONDON MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/95773895-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014